DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION
BUREAU OF PROGRAM OPERATIONS

BQC REFERENCE

MEDICAID FINANCIAL HIGHLIGHTS

2, No. 4

September 1985

REPORTS
RA
412
.4
M4225
v.2, no.4
(1985:Sept.)

RA
412.4
.M4225
V.2,no.4
(1985:Sept.)

The Medicaid Financial Highlight report reviews current issues and trends in Medicaid financial operations. The Budget Branch of the Division of State Agency Financial Management prepared this highlight. For more information on this report call Dave McNally on FTS 987-1398 or John Lemieux on FTS 934-6876.

ANALYSIS OF TITLE XIX MEDICAL ASSISTANCE PAYMENTS
FISCAL YEARS 1982 THROUGH 1987

This Medicaid Financial Highlight report presents an analysis of Medical Assistance Payments (MAP) for the Medicaid program covering fiscal years (FY) 1982 through 1987. The data used in preparing this highlight are based on financial and statistical reports submitted by the States to the Health Care Financing Administration (HCFA). The expenditure data for FYs 1982-1984 are derived from the Form HCFA-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, while the figures for FYs 1985-1987 reflect budget estimates submitted by the States on the May 15, 1985 submission of Form HCFA-25, Medicaid Program Budget Report. Recipient data were developed from the Form HCFA-2082, Statistical Report on Medical Care, submitted by the States for FY 1984. It should be noted that the data reported by the States do not reflect HCFA's adjustments for deferrals, disallowances, sections 1903(s) and (t) ajustments, and quality control penalties.

The tables and charts included in this report indicate notable downward changes from prior growth trends and show a general shifting of MAP expenditures from the institutional setting to alternative health delivery services that encourage outpatient care where medically appropriate. While price inflation continues to drive health care expenditures upward, the rate of increase in Medicaid expenditures has significantly slowed in recent years from an annual growth rate in excess of 15 percent to well below 10 percent. The States' initial estimates for FY 1987 show a growth rate of 7.5 percent, which is considerably lower than the 10.0 percent growth rate currently forecast for FY 1986 over FY 1985.

Although low overall inflation is a leading cause of the recent trend toward more limited growth in medical assistance payments, recent legislative changes in Medicaid have also provided the States with greater latitude in managing their individual Medicaid programs and have given incentives to the States to be more cost effective. New or increased flexibility provisions have allowed States to initiate innovative solutions to their service delivery problems, target their resources to those recipients most in need, and move away from inflationary cost-based reimbursement systems for hospitals and nursing homes to more cost-effective alternative systems. These factors, coupled with cost containment measures initiated by a number of States, appear to be having a demonstrable impact on the growth rate of total Medicaid expenditures.

National Trends in Medical Assistance Payments

CHART 1

Chart 1 shows the total computable and Federal share dollar levels between FYs 1982 and 1987 in comparison to a hypothetical level of medical assistance payments obtained by increasing FY 1981 actual expenditures by the rise in the medical care component of the Consumer Price Index (MCPI) for each succeeding year.

- Since FY 1981, total computable and Federal share growth have closely paralleled the increases in the MCPI with overall growth of approximately 63 percent in comparison to a 60 percent rise in the MCPI level.

- Despite biennial recalculations of the individual State Federal Medical Assistance Percentages (FMAP), the effective national FMAP has remained relatively constant at slightly more than 55 percent.

CHARTS 2A AND 2B

Charts 2A and 2B depict the distribution of medical assistance payments among the major categories of service for fiscal years 1982 and 1987. The Long-Term Care component includes Skilled Nursing Facility, Intermediate Care Facility, and Mental Health Facility services.

- In FY 1987, Inpatient Hospital and Long-Term Care services are expected to account for 67.8 percent of all medical assistance payments, a definite drop from the 72.2 percent share that these services represented in FY 1982. Should this projected slowdown in the growth rate of institutional services materialize, it will signify the reversal of a 10-year trend in which these services represented the fastest rising component of Medicaid expenditures.

- The vast majority of the nation's Inpatient Hospital and Long-Term Care proportional drop is anticipated between FYs 1984 and 1987, as the States strive to develop less costly alternatives to institutional care.

- The 4.8 percentage point rise in the Other category is largely attributable to the movement by the States towards alternatives to institutional care, most notably Home and Community-Based Waiver and Personal Care services. Rapid growth in Health Insurance Payments for per capita arrangements has also played a considerable role in the relative increase in the Other category.

- A 1.5 percent proportional decline in aged recipients to total recipients between FYs 1982 and 1987 may also explain part of the 4.4 percent proportional decrease in institutional services.

CHART 1

MEDICAL ASSISTANCE PAYMENTS: FYS 82–87

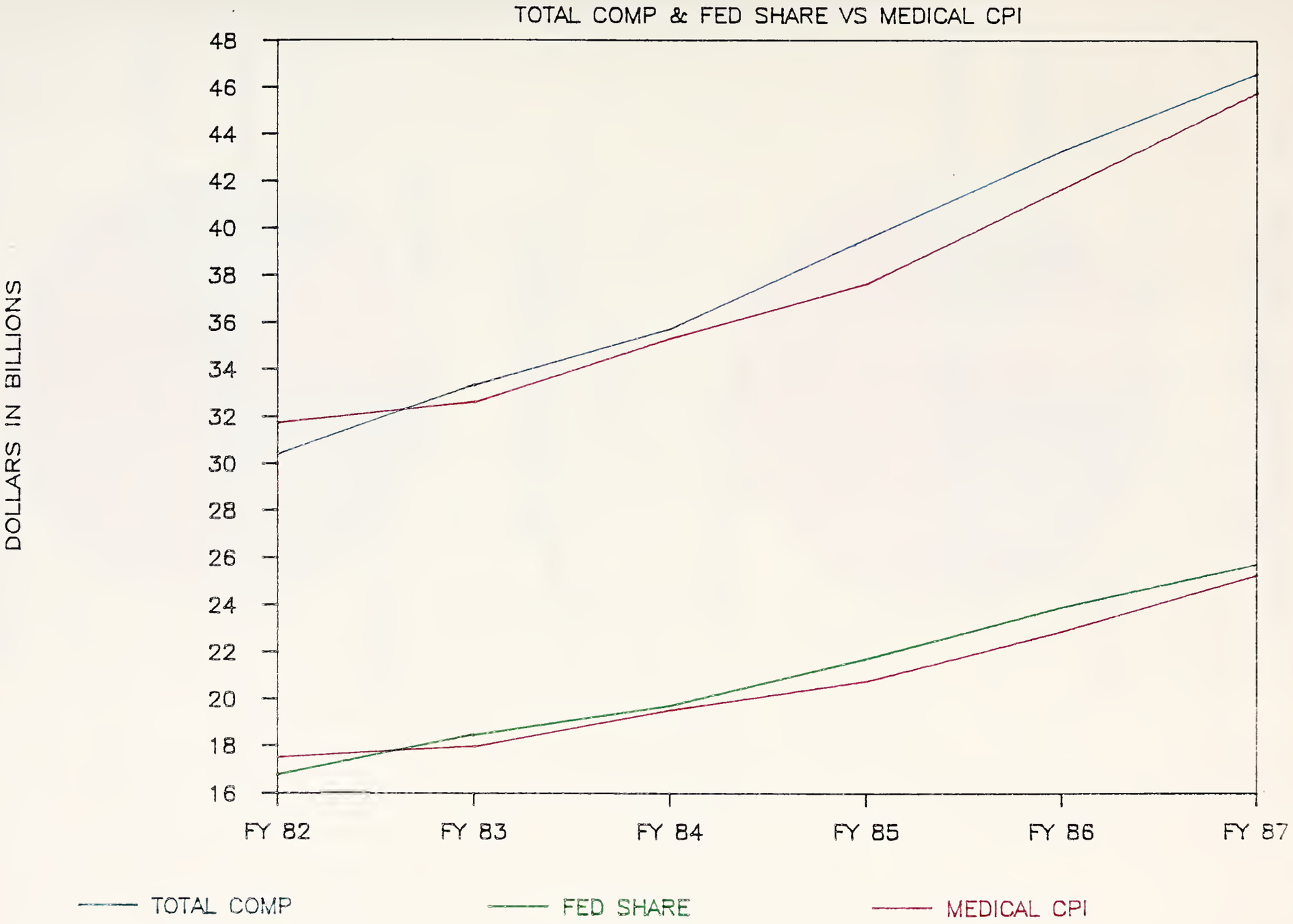


CHART 2A

FY 1982 MEDICAL ASSISTANCE PAYMENTS
BY TYPE OF SERVICE (FEDERAL SHARE)

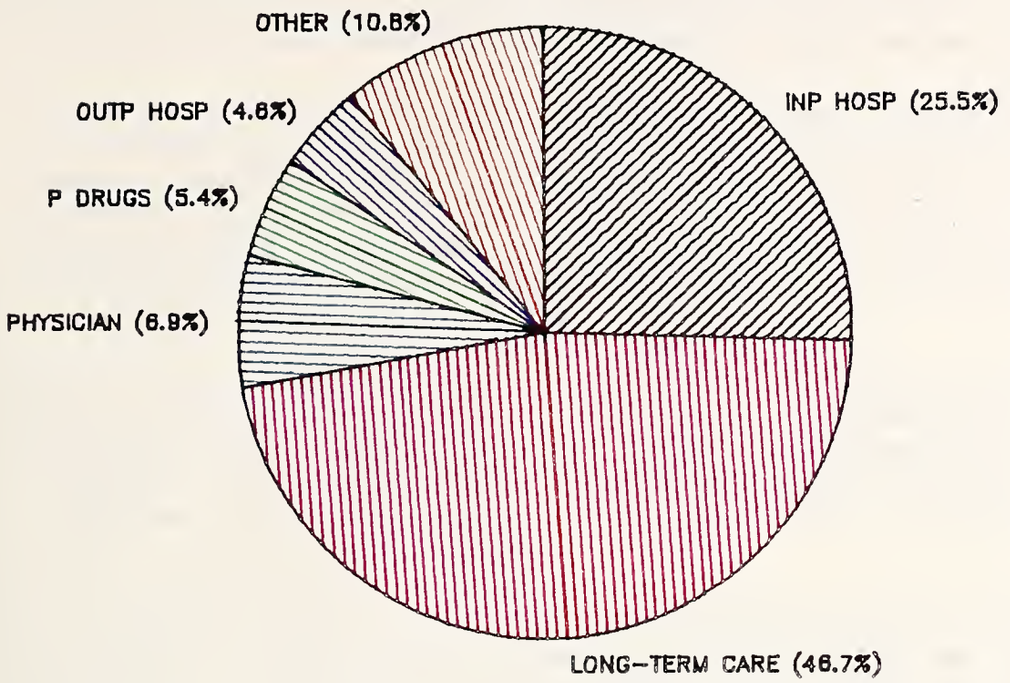


CHART 2B

FY 1987 MEDICAL ASSISTANCE PAYMENTS
BY TYPE OF SERVICE (FEDERAL SHARE)

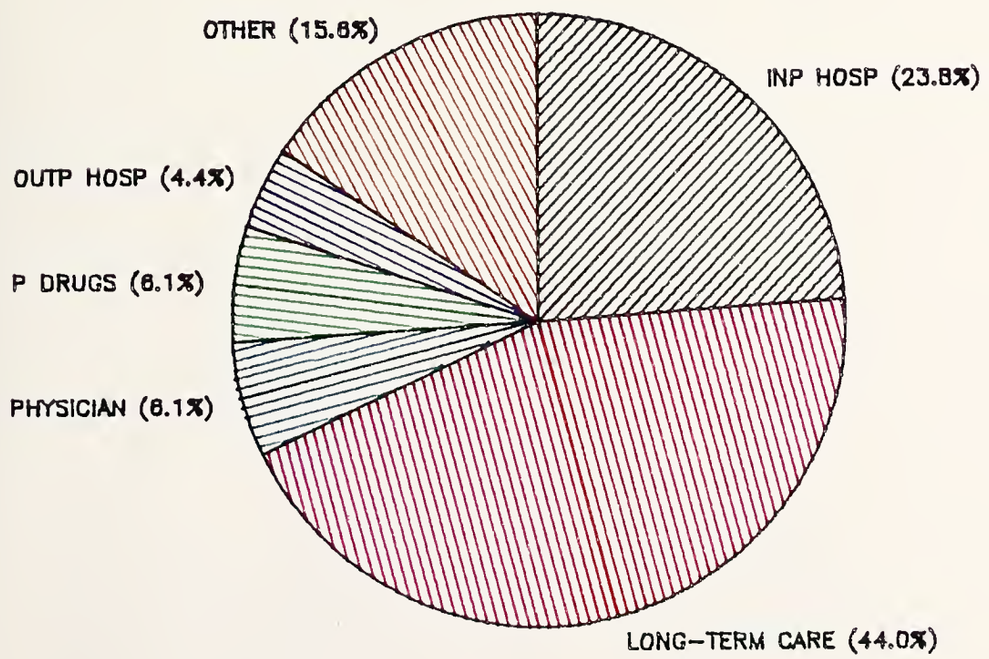


TABLE 1

Table 1 presents the annual and cumulative percentage growth in the categories of services from FY 1982 through FY 1987. Subtotals have been provided for the Long-Term Care and Other categories and for their individual components. The percentages are based on the Federal share of medical assistance payments reported by the States.

- The institutional service categories, with the exception of Intermediate Care Facility/Mentally Retarded, show 10-20 percent lower cumulative growth rates than total medical assistance payments between FYs 1982 and 1987. This pattern provides evidence that the numerous cost containment and alternative reimbursement measures implemented by the States are having a definite impact on expenditure levels.

- Health Insurance Payments (including Medicare Part B premiums and coinsurance/deductibles, Health Maintenance Organizations, and other per capita arrangements) have risen at the highest rate, 191.0 percent. Of the $655 million increase in this category, California accounts for $233 million, over a third of the total.

- The rapid growth in the All Other subcategory is largely attributable to Home and Community-Based Waiver and Personal Care serivces. Since their inception in FY 1982, Home and Community-Based services have risen from $2 million to $268 million. New York's estimate for Personal Care services in FY 1987 represents a $373 million increase over its expenditures for such services in FY 1982 (New York accounts for over 80 percent of the national expenditures for Personal Care services).

TABLE 1

PERCENTAGE GROWTH IN FEDERAL MEDICAL ASSISTANCE PAYMENTS BY TYPE OF SERVICE: FY 1982 - FY 1987

TYPE OF SERVICE	FY 1982 PAYMENTS (MILLIONS)	FY 82-83 GROWTH	FY 83-84 GROWTH	FY 84-85 GROWTH	FY 85-86 GROWTH	FY 86-87 GROWTH	FY 82-87 GROWTH
INPATIENT HOSPITAL	$ 4,278	12.6 %	5.8 %	5.3 %	6.5 %	7.2 %	43.2 %
LONG-TERM CARE	7,847	7.6	5.8	10.0	8.0	6.5	44.2
SKILLED NURSING FACILITY	2,494	3.0	2.1	8.8	8.8	6.8	33.0
ICF/MENTALLY RETARDED	1,864	13.8	4.9	20.3	7.4	6.4	64.2
ICF/ALL OTHER	2,894	8.5	7.7	7.3	7.4	6.4	43.3
MENTAL HEALTH FACILITY	595	3.4	14.5	-4.5	10.6	6.9	33.4
PHYSICIAN	1,167	4.5	4.1	7.0	7.6	6.6	33.6
PRESCRIBED DRUGS	912	11.5	11.9	14.6	11.2	8.3	72.1
OUTPATIENT HOSPITAL	775	8.3	7.2	5.1	10.6	7.8	45.3
OTHER	1,823	21.1	3.7	26.2	24.4	11.8	120.4
HEALTH INSURANCE	343	34.7	25.8	19.4	29.0	11.5	191.0
CLINIC	239	11.3	12.4	5.7	7.6	7.9	53.6
DENTAL	265	-0.4	-7.2	10.2	9.3	6.1	18.1
HOME HEALTH	93	18.3	30.0	18.9	12.4	13.6	133.3
OTHER PRACTITIONER	75	5.3	26.6	29.0	8.5	8.6	102.7
LAB & RADIOLOGICAL	68	0.0	13.2	54.5	11.8	12.0	119.1
EPSDT SCREENING	63	20.6	-25.0	0.0	14.0	9.2	12.7
RURAL HEALTH	4	25.0	20.0	-16.7	0.0	20.0	50.0
ALL OTHER	673	30.5	-11.0	44.4	35.6	14.0	159.1
TOTAL	$ 16,802	10.4 %	5.8 %	10.5 %	10.0 %	7.5 %	53.0 %

TABLE 2 AND CHART 3

Table 2 ranks the top 28 States by average annual percentage growth in Federal medical assistance payments between FYs 1982 and 1987. These States account for approximately 90 percent of all medical assistance payments. Chart 3 displays the States in map form according to the same criterion. In addition, the table shows the growth by State for the periods FY 1982 to FY 1984 and FY 1985 to FY 1987.

- The nation's average annual growth in medical assistance payments for FYs 1982 through FY 1987 is 8.9 percent. Florida exhibits the higest average growth, 17.8 percent, while Hawaii displays the lowest at 2.3 percent.

- Florida's high average annual growth since FY 1982 is primarily the result of significant Intermediate Care Facility/ Mentally Retarded construction costs experienced in FYs 1983 and 1984, as well as the anticipated expansion of its Medically Needy program in FY 1987.

- Hawaii's relatively stagnant average annual growth demonstrates the State's current and future budget priority to control Medicaid outlays. Limiting rises in reimbursement rates and utilization, along with virtually no increases in recipients, has succeeded in containing costs.

- Tennessee has maintained a consistent double-digit annual growth rate since FY 1982 through the raising of limitations on bed days, standard of need levels, and reimbursement rates. Also, the State's 7 percent recipient growth from FY 1982 to FY 1987 is nearly twice the 4 percent national average.

- The District of Columbia and Wyoming also display high average annual growth rates of 16.7 and 16.2 percent, respectively. Wyoming's FY 1986 and FY 1987 estimates are exceptionally higher than its historical expenditure trends, whereas the District of Columbia's average annual growth is skewed by abnormal cash flow adjustments which occurred between FYs 1982 and 1983.

- Projected recipient increases in excess of 20 percent, in conjunction with continuing medical care price inflation, are responsible for the high growth rates in Indiana and Ohio. Both of these States suffered greatly from the economic recession of the early 1980's, which has been the major cause for the recipient upsurge.

- Alabama's growth rates are distorted due to cash flow problems experienced since FY 1982. Recalculating the State's growth rates after removing the impact of the cash flow anomalies produces a truer average annual growth of 5.1 percent.

- Pennsylvania's low average annual percentage growth of 4.5 percent is primarily due to an overall reduction in lengths of stay brought about by the Commonwealth's Concurrent Hospital Review and the implementation of a Diagnostic Related Group based reimbursement system.

- The map also indicates that many central States have average annual growth percentages which are below the national average.

TABLE 2

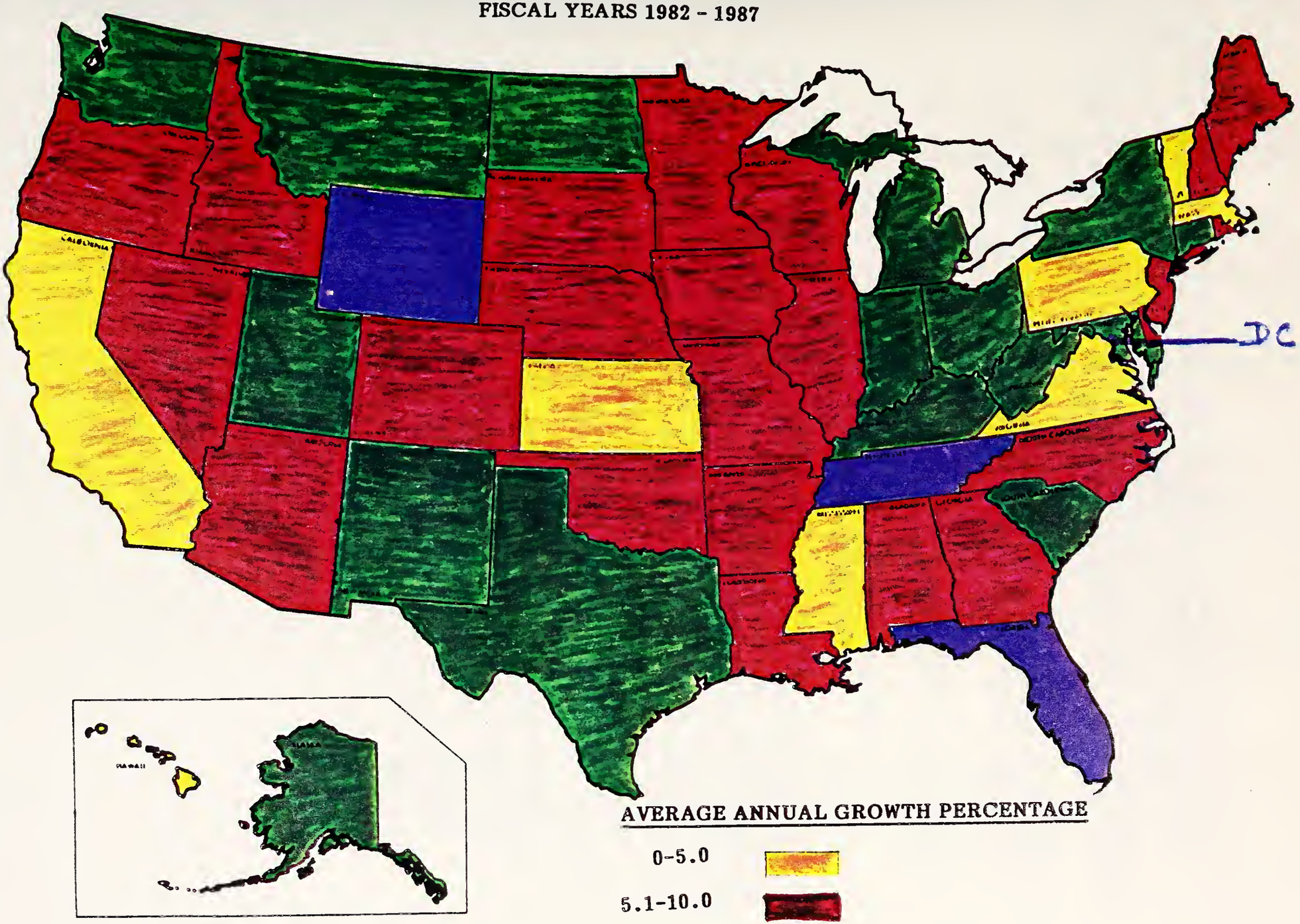
STATES RANKED BY AVERAGE ANNUAL PERCENTAGE GROWTH IN MEDICAL ASSISTANCE PAYMENTS: FY 1982 - FY 1987
FEDERAL SHARE (DOLLARS IN THOUSANDS)

STATE	FY 1982	FY 1984	PERCENT GROWTH	FY 1985	FY 1987	PERCENT GROWTH	AVE ANNUAL PCT GROWTH
FLORIDA	$ 332,827	$ 467,209	40.4 %	$ 549,198	$ 753,359	37.2 %	17.8 %
TENNESSEE	283,284	382,388	35.0	453,627	599,920	32.2	16.2
INDIANA	287,284	378,458	31.7	438,021	555,095	26.7	14.1
OHIO	699,635	921,470	31.7	1,045,641	1,351,398	29.2	14.1
KENTUCKY	264,035	357,128	35.3	387,870	462,082	19.1	12.0
SOUTH CAROLINA	205,888	224,844	9.2	258,143	356,552	38.1	11.9
TEXAS	621,633	780,302	25.5	828,869	1,029,641	24.2	10.9
WASHINGTON	212,134	242,162	14.2	305,401	347,631	13.8	10.8
MARYLAND	242,301	302,492	24.8	326,247	398,376	22.1	10.5
MICHIGAN	742,210	867,205	16.8	924,611	1,205,413	30.4	10.5
NEW YORK	2,919,164	3,510,005	20.2	3,936,415	4,818,928	22.4	10.5
CONNECTICUT	217,464	271,865	25.0	290,410	352,780	21.5	10.2
NORTH CAROLINA	323,637	415,706	28.4	439,217	516,486	17.6	9.9
GEORGIA	383,592	409,211	6.7	513,913	587,869	14.4	9.2
NEW JERSEY	448,234	525,663	17.3	559,883	693,716	23.9	9.2
LOUISIANA	378,326	445,041	17.6	489,827	581,199	18.7	9.0
MINNESOTA	429,291	496,671	15.7	537,657	641,409	19.3	8.4
ARKANSAS	202,943	252,473	24.4	264,920	293,017	10.6	7.7
MISSOURI	259,845	310,298	19.4	341,163	376,348	10.3	7.7
OKLAHOMA	221,119	238,577	7.9	259,732	313,687	20.8	7.3
ALABAMA	232,751	262,792	12.9	343,864	318,008	-7.5	7.2
WISCONSIN	481,112	535,831	11.4	584,611	647,178	10.7	6.2
ILLINOIS	728,624	868,935	19.3	865,422	936,000	8.2	5.3
CALIFORNIA	1,945,339	1,874,399	-3.6	2,118,302	2,459,692	16.1	5.0
MISSISSIPPI	213,376	244,612	14.6	228,753	268,957	17.6	5.0
MASS. DPW	645,327	666,827	3.3	767,533	794,832	3.6	4.7
PENNSYLVANIA	931,532	1,008,496	8.3	1,053,413	1,158,059	9.9	4.5
VIRGINIA	289,067	292,562	1.2	323,579	335,864	3.8	3.1
TOP 28	15,141,974	17,553,622	15.9	19,436,242	23,153,496	19.1	8.9
ALL OTHERS	1,660,086	2,071,181	24.8	2,257,145	2,561,100	13.5	9.1
TOTAL	$ 16,802,060	$ 19,624,803	16.8 %	$ 21,693,387	$ 25,714,596	18.5 %	8.9 %

CHART 3

PERCENTAGE GROWTH IN MEDICAL ASSISTANCE PAYMENTS

FISCAL YEARS 1982 - 1987



AVERAGE ANNUAL GROWTH PERCENTAGE

0-5.0	
5.1-10.0	
10.1-15.0	
15.1-20.0	

TABLE 3

Table 3 ranks the States by their annual medical assistance payments per recipient based upon FY 1984 total expenditures and unduplicated recipients. A State's ranking is the result of the interaction of many factors which include but are not limited to: (1) the State's overall economic/fiscal status, (2) the State's geographically-influenced cost of living index, and (3) the composition and utilization patterns of the State's Medicaid eligible population.

- The top 10 Medicaid expenditure States are equally distributed above and below the national average payment per recipient of $1,747 as follows:

  Above national average - Massachusetts, Minnesota, New Jersey, New York, and Texas

  Below national average - California, Illinois, Michigan, Ohio, and Pennsylvania

- New York has the highest payment per recipient, $3,087, in the nation. In contrast, California, the second largest Medicaid expenditure State, pays $1,064 per recipient and ranks 48th in this regard. The fiscal contraints imposed upon California by Proposition 13 in the early 1980's forced the State to implement aggressive cost saving measures that included instituting negotiated hospital reimbursement contracts, expanding prepaid health plan enrollment, and generally limiting rates and utilization of other services. On the other hand, New York enjoyed a relatively strong fiscal position which allowed the State more flexibility in providing Medicaid services.

- The payment per recipient amounts for all of the Southeastern States, with the exception of North Carolina, fall in the bottom third of the national ranking. Generally lower cost of living indices, poor revenue positions, and fewer optional service offerings may explain the low rankings. Although North Carolina offers 22 optional services, the remaining Southeastern States offer an average of 15 as compared to a national average of 20 optional services.

TABLE 3

RANKING OF STATES BY MEDICAL ASSISTANCE PAYMENTS PER RECIPIENT: FY 1984

	PAYMENT PER RECIPIENT *	TOTAL COMP MAP EXPEND (IN 000S)	UNDUPLICATED RECIPIENTS
NEW YORK	$ 3,087	$ 6,806,358	2,205,138
NORTH DAKOTA	2,970	100,089	33,705
DISTRICT OF COLUMBIA	2,933	305,980	104,336
MINNESOTA	2,818	961,267	341,174
NEW HAMPSHIRE	2,814	110,967	39,433
SOUTH DAKOTA	2,787	90,721	32,552
CONNECTICUT	2,583	568,481	220,090
MASSACHUSETTS	2,495	1,395,039	559,176
ALASKA	2,468	59,394	24,068
NEVADA	2,435	66,806	27,435
INDIANA	2,384	648,261	271,956
RHODE ISLAND	2,288	239,031	104,489
MONTANA	2,134	99,257	46,516
TEXAS	2,109	1,508,383	715,278
COLORADO	1,984	308,369	155,426
WISCONSIN	1,923	944,866	491,328
MARYLAND	1,891	612,940	324,071
UTAH	1,882	130,507	69,353
IDAHO	1,826	66,748	36,550
ARKANSAS	1,814	349,805	192,854
NORTH CAROLINA	1,811	616,480	340,499
WYOMING	1,809	26,570	14,689
NEBRASKA	1,804	155,954	86,432
LOUISIANA	1,798	687,488	382,367
MAINE	1,778	216,579	121,843
NEW JERSEY	1,766	1,053,936	596,937
VIRGINIA	1,731	521,935	301,448
OREGON	1,694	236,113	139,413
PENNSYLVANIA	1,691	1,792,138	1,059,725
IOWA	1,679	336,652	200,564
OKLAHOMA	1,643	414,774	252,450
NEW MEXICO	1,633	135,571	83,026
OHIO	1,620	1,643,395	1,014,647
WASHINGTON	1,618	487,388	301,254
VERMONT	1,602	85,279	53,224
TENNESSEE	1,571	542,632	345,302
KANSAS	1,561	245,966	157,540
GEORGIA	1,485	625,221	421,124
MICHIGAN	1,475	1,704,351	1,155,165
DELAWARE	1,456	68,804	47,253
MISSOURI	1,452	518,037	356,753
FLORIDA	1,419	812,133	572,127
HAWAII	1,409	134,468	95,413
ILLINOIS	1,393	1,752,056	1,257,954
SOUTH CAROLINA	1,317	304,700	231,394
ALABAMA	1,169	369,153	315,666
KENTUCKY	1,096	514,277	469,337
CALIFORNIA	1,064	3,612,457	3,395,080
MISSISSIPPI	1,050	317,600	302,437
ARIZONA	975	91,358	93,700
WEST VIRGINIA	760	140,956	185,584
NATIONAL TOTAL **	$ 1,747	$ 35,537,690	20,345,275

* TOTAL COMPUTABLE CURRENT EXPENDITURES (LINE 6, FORM HCFA-64) DIVIDED BY UNDUPLICATED RECIPIENTS.

** EXCLUDES TERRITIORIES.

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